

USAID/Montenegro
Operational Plan

FY 2006

June 13, 2006

Please Note:

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The Operational Plan is a "pre-decisional" USAID document and does not reflect results stemming from formal USAID review(s) of this document.

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Program Performance Summary FY 2005: I. Democratic Reform

A. Country Situation:

The government remains very stable and public opinion polls demonstrate that, even with a very difficult economic situation, governing institutions enjoy the confidence of close to half the voters. A notable event this fiscal year was the end of the opposition's 16-month boycott of parliament in October 2004. With their return to parliament, although the legislative process slowed down considerably, parliamentary committees began for the first time to employ oversight functions and exercise their authorities. In October, the parliament debated and adopted a declaration on preservation of the Tara River following an effective NGO advocacy campaign; in May, there was a three-day debate on the issue of no-confidence in the government, attended for the first time by the prime minister and his entire cabinet; and in June, the parliament, with the votes of a majority of the opposition and the governing party, adopted a joint declaration on EU Integration, a precedent for consensus across party lines.

Despite their return to parliament, the opposition parties continued to lose popularity in public opinion polls, and the DPS remained the most popular party in Montenegro. In FY 2005, a non-governmental pressure group formed by citizens, called the Group for Changes (GzP), emerged and grew rapidly in popularity over the year, now second only to DPS in the polls. While it is positive to see the emergence of a group that can challenge the dominant DPS and encourage the government's accountability, the loose, undisciplined structure of GzP raises concerns about its role in the political process and its sustainability.

FY 2005 was dominated by debate and polemics about the referendum on state status that the government plans to hold in spring 2006. Direct elections for the State Union Parliament were postponed, requiring an amendment to the constitutional charter with agreement that in any future referendum the member states would cooperate with the European Union on the conditions for its holding. Political parties have split into two camps that are sure to confront each other in the coming year. The challenge is to ensure that the confrontation is a peaceful one based on dialogue and the highest degree of consensus.

Organized crime and corruption remained a serious issue for Montenegro in FY 2005, with little progress on solving previous assassinations, and a high police official responsible for these investigations killed. Although the legal framework provides the opportunity to address crime and corruption, advances in implementation and enforcement are essential. Montenegro's judicial system is still the most problematic institution in the democracy sector. Despite the establishment of two new judicial entities - the Appellate and Administrative Courts - reforms of the judiciary lag behind reforms in the other two branches. The inability to have contract disputes tried in a timely manner or to enforce judgments continues to negatively impact investment.

The central government is gradually improving its cooperation with local governments and the legal framework for putting into place a decentralized system of local self government in Montenegro is progressive; however, the pace of implementation is slow. Municipalities have issued only 18% of the local regulations required to implement local government laws. Local governments are over-staffed but, at the same time, lack the management systems and skilled personnel required to govern effectively. Local budgets are generally poorly controlled and implemented and local public communal service enterprises remain challenged by outdated infrastructure as well as poor management practices.

In the past year significant progress was made in building public support for reforms by expanding opportunities for citizens to express their opinions publicly, exercise their political and economic rights and monitor government performance. Mobilization of various non-governmental organizations (NGOs) as watchdogs at both the national and local levels significantly improved citizens' capacity to participate more effectively and knowledgeably in political and economic processes. However, additional work is needed to make NGOs sustainable. On the media side, the Broadcasting Agency (BA) awarded frequencies to 40 radio and 16 television broadcasters under the first public tender for frequency allocations and rules for advertising and minimum standards for programming were adopted. The public-service broadcaster Radio Television of Montenegro (RTCG) is unquestionably the leader in the market, closely followed by TV IN and the Belgrade-based TV Pink. Although strong progress has been made

over the past three years in implementing media reform, further improvements in business and reporting practices, as well as enforcement of the code of ethics for journalists, are needed to ensure sustainability of an independent media.

B. U.S. Assistance Priorities: Montenegro's reform efforts to date risk backsliding unless democratic institutions are strengthened and the population works to root out corruption and hold offenders accountable. USAID FY 2005 programs in Montenegro targeted assistance to various government institutions and emphasized increasing opportunities for public participation. Such activities included: work with the parliament to increase constituent outreach efforts and public hearings on key reform legislation; increasing training for judges and court administrators through a model court program to increase implementation of previously passed judicial reform legislation; increasing the role of NGOs in providing oversight of government bodies by providing sub-grants for watchdog activities; providing training and networking opportunities for journalists and broadcasters to improve reporting and business practices within the media sector; and improving the ability of political parties to communicate with the public.

C. Program Performance:

Judicial Reform and Rule of Law: The USAID-supported Judicial System Reform Program (JSRP) continued to provide expertise, training, and commodity assistance to improve the structure and operations of the judiciary, including the establishment of the Administrative Court and the Appellate Court, two new and vital institutions for the Montenegrin judiciary. These new institutions have reduced the Supreme Court caseload burden and have begun to ensure that jurisdiction conflicts are resolved promptly and efficiently. Assistance was also provided to the GOM to develop replicable models for reducing the backlog of court cases, assist in efficiently allocating administrative tasks throughout the court system, and strengthen overall court operations. The JSRP has been at the forefront of promoting progressive legal infrastructure change through a series of workshops and conferences that support both the drafting and implementation of civil legislation.

Civil Society, NGOs and Small Grants: Assistance focused on strengthening NGO governance, including assisting the NGO sector in developing a republic-level NGO strategy to formulate its own self-regulation through an NGO Code of Ethical Conduct. This effort will help reform the parliamentary NGO grants system and formalize channels of cooperation between NGOs and government organizations. Some notable program successes included: two Regional Advocacy Centers increased their long-term sustainability through cost recovery, income generation, and/or new business development; and, four national-level NGOs contributed to building rule of law, succeeding to change or correct the government policy-making process, as well as drawing public attention to the implementation of laws through a significant number of watchdog projects. The NGO Sustainability Index for 2005 (preliminary results) improved from 4.7 in 2003 to 3.7 in 2005, with significant improvements in the areas of legal environment, organizational capacity, financial viability, and advocacy capacity. USAID also provided support at the national, regional, and local levels to assist in the development of a modern system of labor management relations by providing advice and assistance in establishing laws and institutions in the areas of social dialogue, economic transition, strategic planning and collective bargaining. Over 300 participants, including local labor leaders and trade union activists, were assisted in responding to the negative side-effects in Montenegro's transition to a free-market economy. In addition to assistance and advice to the National Economic and Social Council of Montenegro, 14 active local Economic and Social Councils were established in Montenegro.

Media: In FY 2005 assistance focused on implementation of media reform legislation, including expert advice and on-the-job training provided to the leaders of the New Public Broadcasting Service for adoption of various programming principles. Assistance was also provided to the BA to develop a digital frequency plan as required by the International Telecommunications Union (ITU) for all European countries, and insure that the BA functioned as a neutral and professional entity. In addition, the BA Council set minimum standards for the advertising and sponsorship of media programs aired in Montenegro. Technical assistance and financial assistance was also provided to MINA (an independent and respected news agency) that is the source of approximately 65% of the news reported in

Montenegro. Advances in this sector during the past year were demonstrated by the Media Sustainability Index (MSI) for 2005 (preliminary results), which showed improvements in three essential key areas: the legal and regulatory indicator rose from 1.77 in 2001 to 2.70 in 2005 (reaching near sustainability); the indicator for professional journalism rose from 1.34 in 2001 to 2.20 in 2005; and the business management indicator rose from 1.16 in 2001 to 2.28 in 2005.

Political Process and Election Assistance: Through a parliamentary strengthening program, the Parliament of Montenegro has made significant organizational and institutional steps toward revising its rules of procedure, computerizing legislative research methods, and supplementing meager human resources through a very successful student internship program. To address the challenges of a hierarchical, closed political system, the parliamentary program also worked to strengthen parties by carrying out multiparty youth leadership/training of trainers' seminars.

Community Revitalization: USAID's Community Revitalization through Democratic Action (CRDA) program is the USG's most visible program in Montenegro. By providing citizens with a means to voice their concerns and priorities, CRDA has motivated citizens to work together to achieve community goals and contributed to a strengthening of grass-roots democracy. In FY 2005, CRDA implementers executed 25 projects within the civil works pillar. The total value of those projects was \$4,649,856, of which USAID contributed only 38% of the total cost. During FY 2005, four energy-related projects were implemented for a total project value of nearly \$500,000, with local counterparts contributing the rest; four transportation projects for a total value of \$2.4 million; and, 11 school projects valued at nearly \$900,000. In close partnership with the Ministry of Health, CRDA constructed, equipped, and launched into operation a Regional Women's Reproductive Health Center for northern Montenegro. This Center also hosts victims of trafficking and domestic violence. The project also trained medical personnel, as the Center is spearheading implementation of the reproductive health component of the GOM's new health strategy. The CRDA program is still working with the Center on a system for successful outreach to scattered, largely rural communities.

Decentralization and Local Governance: The Good Local Governance (GLG) project directed assistance to municipalities to establish local government structures, systems, and practices. During FY 2005, local assemblies in 24% of the municipalities received assistance on policy and budget setting, review, monitoring and evaluation. Local assemblies have been highly enthusiastic and assembly members, who are still elected from the party slate, are expressing a desire to be directly elected by and responsible to citizens. With respect to fiscal decentralization, the single largest impact has been the mobilization of the municipal treasury system: 81% of the municipalities have fully implemented a treasury system which includes formal adoption of treasury organization, procedures and software. E-banking is also underway. Achieving transparent operations has been facilitated by creating, equipping with software and hardware and training staff for treasury departments in 90% of municipalities. This has helped municipalities provide a transparent accounting record of budget and revenue transactions and easier management report generation.

II. Economic Reform

A. Country Situation: In FY 2005 all broad indicators of macroeconomic stability continued to improve. Inflation remained low and continues to fall, as did the fiscal deficit. Inflation for 2005 was well under 3% and the budget deficit, which as of October had fallen by over 30% from 2004, is on target to be just over 2% of GDP. Under the modern and competitive tax system now in place, VAT accounts for over a third of tax revenues, consistent with EU requirements. Personal income tax rates were reduced by 10% and profit tax from 20% to 9%. The GOM strengthened its commitment to reduce the debt stock, continuing the positive trend for public debt as a share of GDP, which is on track to be 40% by the end of 2005. An important result of these changes for private sector growth has been the reduction of benchmark interest rates; T-bill rates fell sharply from 12% to 14% in late 2004 to under 3% in September 2005. Translation of this change into lower market interest rates has begun and will continue into 2006. The banking sector is increasingly well regulated according to international standards of risk-based supervision. In January 2005 the monopoly payments system was fully dismantled and replaced by the new Inter-Bank Payment System (IPS). Introduction of the IPS has reduced inter-bank transfer transaction costs to a fixed tariff,

which has encouraged reductions in these fees. Bank deposits and levels of lending continued their dramatic rise: private deposits had risen by 66% as of September 30 and private borrowing by 37%. These positive financial sector trends were consolidated in October 2005 as the GOM successfully privatized the last remaining majority state-owned bank.

In April 2005 the GOM adopted its revised Economic Reform Agenda (ERA; in English at www.gom.cg.yu/files/1126172740.pdf), which presents a public-policy commitment to the strategic vision of a liberalized, open economy with transparent and decentralized democratic institutions, laying out detailed and reasonably time-bound actions and outcomes through the end of 2007. It covers 18 areas for two broad objectives: Macroeconomic Stability and Development of Institutions to Support a Market Economy; and Economic Growth and Development. The ERA is increasingly used by the GOM as a key tool for donor coordination. Central to successful implementation of the ERA will be actions to increase formal private-sector employment and reduce unemployment as part of the GOM's commitment to reduce the size of the "gray economy." Although official unemployment in 2005 declined to 19% against a target for 2005 of 21.6%, a recent World Bank estimate suggests that "gray" sectors continue to account for about 30% of GDP and 27% of employment. Recent changes in tax and commercial laws support the trend to reduce informal sector activity and generate private sector jobs, but significant implementation gaps remain and key legislation changes are needed to increase labor market flexibility. For a small, open economy with no independent currency, managing the current account deficit (CAD) is of critical importance to sustain macroeconomic stability and ensure investment for growth and development. Montenegro's CAD after grants was 9.3% in 2004. The large, one-time inflows of foreign direct investment in 2005 (e.g., the privatizations of Telekom, Kombinat Aluminijuma Podgorica [KAP], and Podgorickabanka alone generated over €200 million and there was a steady increase in tourist sector investment) ensure the impact of the CAD on macroeconomic stability will be significantly lower in 2005. Still, it remains a key policy parameter to be monitored.

In addition to continuing improvements in macroeconomic stability, a large number of economic reform laws have been passed to reduce the barriers to starting and conducting business, notably on business registration, bankruptcy, collateral registration, foreign trade, mortgage, and domestic competition. Important legislation on consumer protection and streamlining permitting remains in the final stages of development. Implementation of the bankruptcy law remains mixed, with judges and administrators still not fully appreciating the benefits of its restructuring provisions, while training and court administrative support continues to help rectify this situation. Steps to enhance market performance were made with amendments to the Securities Law and to improve corporate governance, restructuring, and finance, by the new Law on Accounting and Audit, which ensures internationally recognized certification of auditors.

B. U.S. Assistance Priorities: Although Montenegro continues to be politically and economically stable, a number of development challenges remain. The legislative and institutional frameworks needed to ensure a stable, free-market economy are not yet complete. Public opinion polls, while showing an increase in public confidence in the government's performance, still flag improved living standards and job creation as top priorities. It is unlikely that public confidence in government institutions will increase significantly until the population sees tangible results in these areas. In FY 2005 USAID objectives in assisting Montenegro in furthering economic reforms focused on strengthening the institutional capacity of selected key entities such as the Ministry of Finance, Tax Administration, and Central Bank. Efforts focused on improving macroeconomic stability, including technical advice on economic reform legislation and implementation of those laws, assistance in formation of government policies that foster private-sector-led growth, water infrastructure projects to facilitate increased investment opportunities in the tourist sector along the coast, and local development projects to assist in income generation and the creation of job growth through community development. While Montenegro still has a number of issues to address in this sector, the government's reforms enacted through 2005 have placed it on a solid footing in its efforts to compete successfully in the global economy and its long-term outlook is positive.

C. Program Performance

Economic Policy and Institutional Reform: USG assistance programs continued to help the GOM consolidate reform through improved implementation. At the Ministry of Finance all revenues now pass

through the central budgetary account and are subject to public disclosure. Progress continued to rationalize the structure of expenditures, although they remain weighted toward wages and social transfers. To parallel the new IPS, automated revenue accounting systems were effectively implemented in the main agencies that account for 98% of public revenues, with cash-based international accounting standards introduced for spending units and extra-budgetary funds. Analytical capacity and procedures were improved for budget analysis, planning and management, and revenue forecasting. The treasury put in place a centralized payroll system for all public-sector salaries. The Interim Debt Management Strategy, of critical importance to sound debt management policy in a euro-based economy, was approved by the GOM in August and used for re-balancing the 2005 budget and for preparing the 2006 budget. The Institute for Strategic Studies and Prognoses, an effective local economic think-tank, continued to develop the research and analytical capability of young Montenegrin social scientists through strong policy analysis on key areas of current reform.

Tax: Improved tax policy analysis helped to transform the tax system into a modern, competitive system, based on self-assessment and in line with international practice and EU standards. After the recent rate reductions, Montenegro has the lowest profits tax rate and simplest value added tax (VAT) in Southern Europe, creating a competitive tax structure to encourage business.

Enterprise Development, Trade and Finance: The competitiveness project provided assistance to private-sector firms, business associations and government counterparts in the tourism, agriculture and wood sectors. Entrepreneurs and managers were assisted to improve product quality and firm operations and performance, in order to encourage investment and growth. Collaborative efforts among firms, business associations and appropriate government entities helped access new markets, increase efficiency and improve the business environment. A key success has resulted from support provided to the Ministry of Tourism on tourism development tenders, including the tender for a long-term lease for one of the most prestigious resorts in the republic, Sveti Stefan. Assistance provided credibility in the international marketplace and helped the GOM meet top industry practice, creating a strong likelihood that a lucrative agreement will be reached in early 2006. Assistance on this and other tenders is projected to lead to several hundreds of millions of dollars in investment. USAID assistance, in addition to attracting strategic foreign investment, offered numerous capacity-building events to raise standards for managing the needs of international guests, evaluate global trends in tourism and their impact on Montenegrin tourism, and develop tourism marketing and marketing distribution.

Activities to strengthen effective private sector development continued with two local strategic partners--the Center for Entrepreneurship and Economic Development (CEED) and Montenegro Business Alliance (MBA). The CEED Consulting fee-for-service business continued to perform well over the past year serving local business needs, while the CEED Services publication "Removing Barriers to Doing Business in Montenegro" won second place worldwide in the Free Market Solutions to Poverty Category of the 2005 Templeton Freedom Award. The MBA continues to gain membership and has increased its effectiveness as a key business voice and valued partner for both parliament and the GOM in working to improve the business climate. Program activities also provided crucial assistance to support relevant GOM entities to put into place trade and foreign investment policies that will allow Montenegro to participate effectively in the liberalized global trade regime, as represented by the WTO. The GOM is now well prepared in most of the formal required communications, which should allow it to proceed smoothly with its accession, opened by the WTO on a separate track from Serbia in February 2005.

After just over three years of operation, the USAID supported Opportunity Bank (OB) now has a total of 70,980 customer relationships with economically active citizens (depositors, borrowers, guarantor relationships) and operates a total of 28,785 client accounts. During the life of this now-completed project, OB disbursed over 22,000 loans valued at over €73.3 million. During FY 2005, reflecting but outstripping positive general trends in the banking sector, OB saw dramatic improvement and growth in all areas. As of September 30, 2005, year-to-year deposit growth was over 330%; year-to-year SME loans increased by 68%; and non-SME loans grew by 47%. At the end of USAID's direct role in this project, with completion of its agreement in September 2005, OB is able to stand on its own in a commercial setting as a local leader in micro-enterprise and small business banking.

Community Revitalization through Democratic Action-Economic Focus (CRDA-E): This year, CRDA programming efforts through community-driven projects demonstrated a natural progression towards local economic growth activities. By the end of FY 2005, CRDA-E community and sub-regional development councils had selected, designed and carried out 291 economic and social development projects worth close to \$7 million, with overall USAID contributions equally matched by public, private, and community contributions. CRDA-E is concerned with supporting the development of new businesses and entrepreneurs, as well as encouraging businesses to register, thus shrinking the gray economy and recovering taxes to support municipal services. In just five months, approximately 110 new entrepreneurs out of a targeted 125 have benefited from a micro-grant award program, which distributed 81 awards to vulnerable households. CRDA-E is particularly focused on business and producer associations in the promising industry sub-sectors of agriculture and tourism. Eight CRDA/CRDA-E project activities in partnership with the olive growers associations on the coast of Montenegro, three completed in FY 2005, have brought a traditional industry back to life.

Coastal Water and Waste Water Earmark: During FY 2005, USAID partners implemented water and waste water improvements in the coastal regions of Montenegro as part of a \$12 million FY 2004 Congressional earmark. The objective of these activities was to design, build, or upgrade selected water and wastewater infrastructure in order to improve the quantity and quality of water services, address public health threats faced by local residents and tourists, and reduce environmental degradation, particularly through shore pollution. The projects, which operated in major tourist destinations along the coast, have 13 activities underway, including eight municipal water network upgrades and five wastewater system improvements. By the end of FY 2005 the overall project was 75% complete. One major activity, a 2500-cubic-meter water reservoir, was delayed six months to resolve the issue of finding an acceptable site location, but now all activities are on schedule for full completion by the scheduled project completion date of March 2006. The project had already generated tangible results through these critical infrastructure improvements by the start of the 2005 tourist season. The number of customers receiving an uninterrupted supply of water was improved significantly, including many small businesses. During the July-August peak of the 2005 tourist season there was a significant reduction in the number of days during which there were interruptions of an hour or more of drinking-quality water supply in the three targeted municipalities. This improved water supply quality was able to support an additional 13,000 tourists in the Budva Municipality in the 2005 season. Sewage systems in two major tourist destinations (Kotor and Budva) were also significantly improved, reducing waste water pump interruption by 90%. In previous years, such interruptions had resulted in sewage back-up, bad odors, and in some cases, overflow of untreated sewage onto beaches. The improvements to the water and waste water systems provide a solid foundation on which the GOM can build to meet its crucial, growing tourism-sector needs on the coast of Montenegro.

Donor Relations: USG SEED assistance levels to Montenegro have decreased significantly from prior years, but USAID remains a significant donor in Montenegro. With the advent of the Stabilization and Association Agreement (SAA) with the EU and an expected increase in European multi- and bi-lateral donor assistance, overall donor assistance levels should be sufficient. USAID coordinates closely with all other donors in an effort to avoid duplication, leverage USG assistance, and to identify potential successors for assistance in areas where the USG will no longer work due to funding constraints. In 2005 the European Agency for Reconstruction (EAR) became Montenegro's largest donor, with its budget surpassing USAID's for the first time. Its main areas of focus are: public administration reform, judiciary reform, integrated border management, energy and enterprise restructuring and privatization. The programs of the World Bank and the European Bank for Reconstruction and Development are principally focused on economic growth and infrastructure investments, while the International Finance Corporation centers on small and medium-sized enterprise development. The UNDP, with funding from the EAR, Germany, Canada, and the Netherlands, is working on the environment, enterprise development, and civil society. The Open Society Institute, the Organization for Security and Cooperation in Europe (OSCE), and the Council of Europe have small rule-of-law programs. Funding for humanitarian aid is much smaller than in previous years, with remaining programs coordinated by UNHCR. Coordination takes place at all levels, starting from the high-level collaborative framework of the GOM's ERA and continuing through regular meetings at the technical level of program managers and assistance implementers. USAID participates in donor coordination bodies on infrastructure and border crossings managed by the

EAR; an environment coordination body managed by UNDP; and a reproductive health strategic working group with the World Bank and the British Department for International Development (DFID). In drafting their €5.5 million EU Community Assistance for Reconstruction, Development and Stabilization (CARDS) regional program to be implemented in 2005-2007, the European Commission coordinated with USAID to ensure their efforts would complement U.S. activities.

III. Other Programs of Significance

Anti-Trafficking: The International Office for Migration (IOM) is implementing a USAID-supported grant to provide institutional strengthening and operational support for a shelter for victims of trafficking in Podgorica managed by a local NGO. The number of foreign and Montenegrin trafficked victims identified and assisted through the IOM-supported shelter in the last year was 23. All of the victims were provided with safe and full-board accommodation; psychological, medical, legal, vocational training; transportation; and interpretation services. The GOM will take over the responsibility for funding the shelter in January 2006. IOM also delivered customized reintegration assistance to national victims identified abroad or within Montenegro. Finally, aiming to strengthen Montenegro's institutional capacity to identify and respond to specific protection and assistance needs of trafficked victims, IOM delivered joint trainings on protection and assistance for victims of trafficking for officials of Montenegro's Ministry of Labor and Social Welfare, Ministry of Health, and Ministry of Education.

Anti-Corruption: Identified as a significant problem in Montenegro, the Mission has made it a priority for future activities launched under the new strategy to specifically address in the scope of work how anti-corruption issues for that sector will be addressed. Coordination with U.S. Treasury-led support to the Agency for Prevention of Money Laundering helped it to accede to the Egmont Group in June 2005.

IV. Cross-cutting Activities

Global Development Alliances and Partnerships: Public-private partnerships were identified as a cross-cutting theme in the new strategy, and the Mission is actively looking to develop partnerships with new local or U.S. partners that will help achieve targeted objectives. With decreased funding the Mission will have to reduce efforts in priority areas, and may be able to identify new local and non-traditional partners, including donors, to take on some of the responsibilities. USAID is developing strategies to identify non-traditional partners to leverage program funding, such as reaching out to the various Diaspora groups who have traditionally invested money into their former home communities and by exploring opportunities with the Global Development Alliance (GDA) program. The Small Enterprise Assistance Funds (SEAF) has established a fund with USAID support to provide equity, in combination with technical and managerial assistance to SMEs, in companies across a diversified range of industries. Partners include donors, governments, the private sector, corporations, pension funds and foundations.

Gender: A gender assessment for Serbia and Montenegro was completed in March 2005. The assessment identified a number of best practices and provided recommendations for future consideration. In USAID's new strategy gender is a key cross-cutting issue. As under the former strategy, gender will continue to be integrated and institutionalized at all stages of the Mission's work, e.g. policy or activity planning, implementation, and monitoring and evaluations.

For more information, please visit www.usaid.org.yu.

FY 2006 Program**SO: 170-0131 Democratic Governance of Market Economy Strengthened****Improve Economic Policy and the Business Environment**

Improve Economic Policy and the Business Environment (\$1,149,000 AEEB, \$93,515 AEEB prior year recoveries). USAID seeks to improve the competitive environment for private-sector activity in Montenegro by providing key capacity-building support at the Ministry of Finance for program budgeting, development of medium-term economic framework, improved Treasury function, and strengthened tax and customs policy. Support will be provided to the audit function at Tax Administration and to assist work led by the U.S. Treasury for the Agency for Prevention of Money Laundering. In addition, activities will work to strengthen financial-sector institutions for banking supervision and enhance commercial bank development, insurance regulation, and training and education for better implementation of commercial legislation and courts, accounting and audit, labor markets, and pension reform. Some limited support will be provided to other institutions to support market reforms, such as the Small and Medium Enterprise Development Directorate, Statistics Agency, and university-level entrepreneurship curriculum development. Assistance for the Regional Energy Regulatory Program will support institutional strengthening at the Energy Regulatory Agency of Montenegro, allowing them to take part in the program of information exchange and capacity building for energy regulatory authorities in Central and Eastern Europe and Eurasia. USAID will closely coordinate with the European Agency for Reconstruction, World Bank, and other bi-lateral and multi-lateral donors. Principal partners: Bearing Point, Energy Regulators Regional Association (ERRA) (primes).

Strengthen the Justice Sector

Strengthen the Justice Sector (\$1,200,000 AEEB). In FY 2006, USAID will continue with technical and training support of Montenegro's judicial reform, laying the foundation for an independent, impartial, transparent judiciary that will protect the rights of physical and legal entities. Support for strengthening of the Judicial Training Center and the new Administrative Office will increase in an effort to assist the judicial system in effectively and efficiently dealing with case management systems and staff in the courts. In addition, assistance will be provided for legislative drafting and for effective implementation of the new legal framework for judicial officials, including work on a new constitution, and legal commentaries. Limited support will be provided for further training in court administration for all courts in order to enable functioning of the courts in a more transparent, open, responsive, and accountable manner. Principal partners: Checchi, Company Consulting, Inc. (primes).

Strengthen the Legislative Function/Legal Framework

Strengthen the Legislative Function/Legal Framework (\$440,000 AEEB). USAID will provide technical and training assistance through a new Parliament Strengthening Activity, to develop a more inclusive internal party decision-making process, increased dialogue among party factions, and organizational reforms that will strengthen parliament's position and improve legislative capacity. This will be achieved by focusing assistance on five primary needs: more efficient legislative operations, a better developed committee structure, more professional staffing resources, better organized administration and strategic planning, and constituency outreach and representation. In addition, limited assistance will be provided to political parties through party clubs and party caucuses within the parliament. These improvements will enable parliament to become an effective third branch of Montenegro's democratic governing system that advances needed reform and political stability for the benefit of all citizens. Principal partners: to be determined (TBD).

FY 2007 Program**SO: 170-0131 Democratic Governance of Market Economy Strengthened****Improve Economic Policy and the Business Environment**

Improve Economic Policy and the Business Environment (\$2,735,000 AEEB). In FY 2007 USAID will provide support to the Ministry of Finance to build capacity in budgeting, develop a medium-term economic framework, improve Treasury function, strengthen tax and customs policy, audit function at Tax Administration and the Anti-money Laundering Agency work led by the U.S. Treasury. In addition, USAID will strengthen the financial sector institutions in the areas of banking supervision and commercial bank development, insurance legislation. Finally, USAID will provide training and education to improve the implementation of commercial legislation and courts, accounting and audit, labor markets and pension reform, and provide targeted support to other institutions to support market reforms. Principal partners: Bearing Point, ERRA (primes).

Strengthen the Legislative Function/Legal Framework

Strengthen the Legislative Function/Legal Framework (\$1,250,000 AEEB). USAID will continue with the Parliament Strengthening Activity initiated in FY 2006 and focus on development of the parliament's more inclusive internal party decision-making process, increased dialogue among party factions, and organizational reforms. Some assistance may be provided to political parties through party clubs and collegiums, emphasizing a focus on youth and municipal-level impacts, as well as further work on the legal framework. Implementer: TBD.

FY 2006 Program

SO: 170-0132 Enterprise Growth Increased In High Potential Sectors and Municipalities

Expand & Improve Access To Economic & Social Infrastructure

Expand & Improve Access To Economic & Social Infrastructure (\$489,750 AEEB). USAID will continue to promote development of and leverage funding for economic infrastructure projects through the Community Revitalization through Democratic Action - Economy (CRDA-E) activity in order to stimulate and support business development and investment. Activities will enhance successful infrastructure investments realized under the original CRDA project and the Coastal Development and Environment activity. The Good Local Governance (GLG) project will continue support for improved water company billing and revenue-collection, for benchmarking of municipal water company performance against international indicators and for completing targeted water utilities' business plans. Work in progress by USAID and the United States Trade and Development Agency (USTDA) should result in completion of a feasibility study for a revolving investment fund (RIF) to provide credits in the municipal water sector, with mobilization of a Development Credit Authority/Global Development Alliance to begin to design and build the RIF, and companion technical assistance to increase bankability of target municipal water utilities in key tourism locations in the Republic. Other possible donor funding mobilization is expected. Principal partners: International Relief and Development (IRD); The Urban Institute (UI); USTDA; DCA/GDA with New York State Environmental Facilities Corporation et al.

Improve Private Sector Competitiveness

Improve Private Sector Competitiveness (\$1,769,250 AEEB). USAID will continue implementation of the CRDA-E project and the Private Sector Development and Competitiveness project. Activities will work with business associations, producer associations and private business partners to improve business strategies and products to expand access to the market. Activities will enhance firm and industry domestic/foreign export product development and promotion through improved quality standards and packaging, international certification, market research, marketing, branding, and customer service. Activities will also work with high-potential local firms to help them compete for investment. In addition to technical assistance and training, CRDA-E will provide strategic co-financing and co-development of business opportunities in the agriculture and tourism sectors through business and producer associations with emphasis on full-time equivalent job creation and income generation. Activities will support local business associations, business service providers and think-tanks to improve understanding of the

requirements in a market economy and to upgrade skills. Activities seek to enhance critical input from the private sector to improve and institutionalize reforms in the business regulatory environment to remove barriers and improve competitiveness. Principal partners: International Relief and Development (IRD) and Booz-Allen-Hamilton (BAH).

Support Democratic Local Government & Decentralization

Support Democratic Local Government & Decentralization (\$906,000 AEEB). USAID will support strengthening of municipal economic planning and development capacity through public-private Local Economic Development Councils, established under CRDA-E, emphasizing realization of high-potential municipal and regional-scale projects with opportunity for quick economic results. Efforts will also remove municipal barriers to business and institute incentives to attract investors. Principal partners: International Relief and Development (IRD) and The Urban Institute (UI).

FY 2006 Program

SO: 170-0211 Risk of Political Instability Reduced

Expand & Improve Access To Economic & Social Infrastructure

Expand & Improve Access To Economic & Social Infrastructure (\$1,749,640 AEEB). In FY 2006 activities will seek opportunities to promote development of and leverage funding for economic infrastructure projects to stimulate and support business development and investment. Investments may build on the successful results of the original Community Revitalization through Democratic Action (CRDA) and Good Local Governance (GLG) activities. Cooperative Housing Foundation (CHF) (prime).

Strengthen Civil Society

Strengthen Civil Society (\$648,000 AEEB). In FY 2006, USAID will continue to work on civil society and media development. Assistance will be provided for improving the legislative framework for ensuring long-term sustainability of the non-governmental organization (NGO) sector and public perception of NGOs. Also, support will be provided for development of structured systems and practices for formal citizen participation and advocacy associations to watchdog transparency and protection of civic rights of citizens. Further technical assistance and training will be provided for successful transformation of Montenegro Radio/Television (RTCG) into a public broadcaster, implementation of Free Access to Information Law, and further decriminalization of libel. Limited support will be provided for economic reporting training to enhance quality of business writing and training/education on professional standards. Limited assistance will also be provided to political parties through party clubs, collegiums, and party caucuses within the parliament. Finally, technical assistance and a grant for domestic election monitoring will be provided to a competent, well established local NGO. The political party and election assistance component are a part of a larger Parliamentary Strengthening Activity notified strategic objective 170-0131. Principal partners: American ORT and National Democratic Institute (NDI).

Support Democratic Local Government & Decentralization

Support Democratic Local Government & Decentralization (\$823,360 AEEB). In FY 2006 as one element of their activity, the CRDA-E North activity will continue to support strengthening of municipal economic planning and development capacity through Local Economic Development Councils, emphasizing realization of high potential municipal and regional scale projects with opportunity for quick economic results. In the economically depressed northern region of Montenegro, a public-private regional development agency is planned for launch, with multi- donor and local support, to improve the economic environment for development of competitive advantages of the north. Efforts will also remove municipal barriers to business (i.e. one stop shops) and institute incentives to attract investors, including from the Diaspora. Implementer: CHF (prime).

FY 2007 Program**SO: 170-0211 Risk of Political Instability Reduced****Expand & Improve Access To Economic & Social Infrastructure**

Expand & Improve Access To Economic & Social Infrastructure (\$667,000 AEEB). Building on the foundation work accomplished under the CRDA-E and the Private Sector Development and Competitiveness Project, and the Revolving Investment Fund initiative, the Mission will design a new activity to support local economic development to foster small business growth and enterprise growth in the disadvantaged populations in Montenegro. It will seek to improve municipal and regional services and economic infrastructure in support of businesses and expansion of employment opportunities. While it is envisioned that this program will concentrate the bulk of its activities in the Northern region of Montenegro that has been identified as the most fragile, it will seek opportunities to work in other ethnically vulnerable communities in the Southern region as well. Implementer: TBD.

Strengthen Civil Society

Strengthen Civil Society (\$600,000 AEEB). USAID will continue its civil society and media development activity that will implement activities directed to improve NGO sustainability and the capacity of NGO's to advocate and monitor on behalf of the citizens and bolster implementation of media reform and enhance investigative and economic reporting.

FY 2006 Program**SO: 170-0420 Cross-Cutting Programs****Program Support**

Program Support (\$2,500,000 AEEB, \$380,495 AEEB carryover). The funds provide salary and logistical support for program-funded personnel, the operational costs of the two field offices that monitor and manage many of USAID's programs in Montenegro, and program-related activities that affect more than one objective, such as assessments, activity design, evaluations, and training. USAID in Montenegro intends to buy into a mechanism managed by Serbia's program on the human and institutional capacity-development activity in FY 2006 that will be focused primarily on participant training and upgrading private- and public- sector human capacity.

FY 2007 Program**SO: 170-0420 Cross-Cutting Programs****Program Support**

Program Support (AEEB \$1,431,000). The funds provide salary and logistical support for program-funded personnel, the operational costs of the two field offices that monitor and manage many of USAID's programs in Montenegro, and program-related activities that affect more than one objective, such as assessments, activity design, evaluations, and training.

Results Framework

170-0130 Accelerated Development and Growth of Private Enterprise

Program Title: Economic Policy and Finance

IR 170-0131: Increased Soundness of Fiscal Management

IR 170-0132: Improved Functioning of Financial Markets

IR 170-0133: Private Enterprises Strengthened

IR 170-0134: Enhanced Economic Soundness of Energy Sector

Discussion: USAID support for IR 170-0134 ended in December 2004 and with it access to the internal financial data that had allowed construction of actual data for a period other than normal accounting period (January 1 - December 31). For comparative purposes, the following data summarize the indicator actual results for full calendar years 2002, 2003, and 2004 in millions of euros:

2002	2003	2004
25.2	9.1	12.9

170-0131 Democratic Governance of Market Economy Strengthened

Program Title: Economic Policy and Governance

IR 170-0131.1: Policy and Legal Framework for Economic Growth Improved

IR 170-0131.2: Government Institutions Implement Economic Framework

IR 170-0131.3: Government Exercises Authorities Responsively

Discussion: This is a new SO as of FY 2006, and while preliminary discussions have been held regarding measurements, these indicators are subject to review and revisions as the Mission develops its PMP.

170-0132 Enterprise Growth Increased In High Potential Sectors and Municipalities

Program Title: Local Economic Growth

IR 170-0132.1: Improved Local Business Climate in Targeted Municipalities

IR 170-0132.2: Competitiveness Increased in Targeted Sectors

Discussion: This is a new SO as of FY 2006, and while preliminary discussions have been held regarding measurements, these indicators are subject to review and revisions as the Mission develops its PMP.

170-0200 More Effective, Responsive and Accountable Democratic Institutions

Program Title: Democracy and Governance

IR 170-0201: Enhanced Capacity and Competitiveness of Independent Media

IR 170-0202: Strengthened Civil Society, Political Party and Trade Union Capacity to Serve and Represent Citizens

IR 170-0203: More Effective, Independent, and Accountable Legal Institutions

170-0210 Increased, Better Informed Citizens' Participation in Political and Economic Decision-Making

Program Title: Community Development and Local Governance

IR 170-0211: Citizens Improve their Living Conditions through Participation in Community Development Activities

IR 170-0212: Improved Interaction Between Citizens and Local Government

170-0211 Risk of Political Instability Reduced
Program Title: Democracy and Economic Security

- IR 170-0211.1: Improved Economic Security in Vulnerable Areas
- IR 170-0211.2: More Inclusive Democratic Structures
- IR 170-0211.3: Rapid and Effective Response to Crisis by Relevant Actors

Discussion: This is a new SO as of FY 2006, and while preliminary discussions have been held regarding measurements, these indicators are subject to review and revisions as the Mission develops its PMP.

170-0410 Special Initiatives
Program Title: Special Initiatives

170-0420 Cross-Cutting Programs
Program Title: Cross-Cutting Programs